CAPITOL SERVICES, INC
526 Townsend Street, Lansing, MI 48933
517.372.0860 Fax 517.372.0743
www.capitolservices.org

COMMENTS REGARDING RETIREE HEALTH CARE ON BEHALF OF THE RETIREMENT COORDINATING COUNCIL BY ELLEN HOEKSTRA, CAPITOL SERVICES, INC. NOVEMBER 1, 2007

The Retirement Coordinating Council (RCC) is well aware of the potential impact of the new GASB standards for Other Post Employment Benefits (OPEB) on the bond market. As a coalition of both active and retired school and state employees, RCC has historically been very conscious of how increased retiree health care costs impacts public employers. We are here today to convey four points:

- The RCC has supported a number of actions which have already taken place that help contain retiree health care costs;
- Retirees have already had a number of increases in their "cost-sharing";
- There is a difference between reducing retiree health care costs and shifting cost increases onto retirees; and
- State policymakers can take steps that will help with both diminishing the potential impact of the new accounting standards and controlling health care costs.

Actions that have already occurred that help contain health care costs

- Support for the two recent major changes in the delivery of retiree health care for school retirees, including the Medicare Prescription Drug Plan for an $80 million savings and the Medicare Advantage, which is projected to save another $40 million in 2007. These proposals were approved by the MPSERS Board, in concert with DMB. RCC was involved in background discussions and assisted in dissemination of information regarding these plans to maximize their utilization and thus increase savings to the system. These changes were not without difficulties for some retirees but have helped enable the retiree health care portion of the MPSERS rate to remain the same over a four-year period (2005-2008). SERS has also made good use of the Medicare Part D Prescription Drug Subsidy Program under the Medicare Modernization Act.
- Support for removing subsidization of retiree health care costs for MPSERS members with less than ten years of service, also enacted.
- Support for the elimination of the ban against out of state pharmacies participating in mail order prescription plans, now enacted.

Increases in cost sharing has also occurred

- School and state retirees have experienced a number of increases in cost sharing. Because they are not done legislatively but through state agency and board actions, the legislature may not be aware of them as is true of statutory changes.

Ellen Hoekstra
Darrell Tennis
Todd Tennis
Stephanie Johnson Wurtzel
Noah Smith

- School retirees, for example, have had their most recent increases in cost sharing in 1995, 1997, 1999, 2000, 2001, 2005 and 2006, and a new list of proposed cost transfers will be discussed in a meeting tomorrow afternoon.
- State retirees have seen cost sharing increases in 1997, 1999, 2000, 2003, and 2005.

Cost-sharing: what's the impact?

- In some instances, cost-sharing can drive behavior, such as when prescription drug plans make it more financially advantageous to use mail order pharmaceutical drugs. However, human behavior is complex and motivated by non-economic factors as well. Furthermore, some types of cost sharing simply require retirees to pay more: the net result is that the payer of the cost has shifted rather than the cost being reduced.
- It is important to take into consideration as you look at cost shifts the size of the pension from which the retiree must pay these new costs. In 2006, the average pension for school retirees was $17,997 and for state employees was $16,997. Bear in mind that in either system, a member who retired with a final average compensation (FAC) of $20,000 and 30 years of service receives a pension of only $9000 per year; at an FAC of $30,000, it increases to $13,500. Affordability for members with less than 25 (MPSERS) or 30 (SERS)years of service is why we believe that the graded scale premium will, over time, increase the state's Medicaid costs, as many pre-Medicare retirees discover that it may cost half to three quarters of their pensions to pay for retiree health care under SERS or MPSERS. It is particularly important to consider the impact of cost shifting to older retirees, whose pensions were based on smaller salaries.
- Some changes are cost-effective while improving the quality of health care—for example, the Cardiac Centers of Excellence program in MPSERS, which makes it more likely that members receive high quality care for certain cardiac procedures. Reducing the incidence of re-hospitalization is good for the bottom line and good for retirees. We would also highlight the Wellness and Preventive Service coverage started for state retirees in 2003.

What can be done to reduce health care costs and finance them more effectively?

- Move towards prefunding retiree health care so that investments can help finance retiree health care.
- Consider that it is administrative efficiencies rather than "cookie cutter" benefits that can save costs in the operation of retirement systems.
- Emphasize reducing the cost of health care, not transferring that cost to the older individuals who are members of these retirement systems. Let us offer some examples:

    1. Seek input from health care economists who are familiar with what other states are pioneering on issues such as reducing hospital infections—a hospital based infection adds roughly half again the cost to a hospital stay and obviously increases pain and risk for the patient;

2. Review the investment that some other large retirement systems such as CALPERS are making in cutting edge technologies to make the healthcare system itself more efficient. More cost-savings may result from that front than from modifying how Michigan administers its pension systems.

Thank you for your consideration of these points. We would be glad to answer such questions as time permits.